

CITY OF OLDS

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

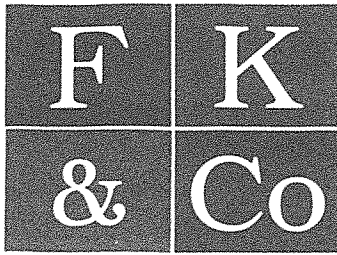
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City of Olds

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Michael Reschly	Mayor	Jan 2018
Mark Fulton	Council Member	Jan 2016
Matthew Slagel	Council Member	Jan 2018
Raymond Meth	Council Member	Jan 2018
Galen Thompson	Council Member	Jan 2016
Jason Waterhouse	Council Member	Jan 2016
Brittany Davis	City Clerk	Indefinite
<u>(After January 2016)</u>		
Michael Reschly	Mayor	Jan 2018
Mark Fulton	Council Member	Jan 2020
Raymond Meth	Council Member	Jan 2018
Jason Waterhouse	Council Member	Jan 2020
Matthew Slagel	Council Member	Jan 2018
Timothy Faller	Council Member	Jan 2020
Brittany Davis	City Clerk	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated December 12, 2014 on the City of Olds, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated December 12, 2014 and the current status of the City's implementation of the recommendations included in that report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Olds and other parties to whom the City of Olds may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Olds during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 17, 2016

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Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated December 12, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (C) Clerk's Report – Although monthly Clerks' reports are prepared, a budget vs actual comparison was not present.

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports include a budget vs actual comparison.

Current Status – Not corrected. The recommendation is repeated.

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(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not preceded by proper notice as required by Chapter 21.4 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund. We noted that this requirement was not met by the City for the meetings tested.

Recommendation – The City should comply with Chapters 21.4 and 372.13(6) of the Code of Iowa.

Current Status – Corrected. For the period tested, City Council meeting agendas were posted prior to the meetings. City Council minutes included total disbursements from each fund as required.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

(F) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Not corrected. The recommendation is repeated.

(G) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Not corrected. The recommendation is repeated.

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- (H) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained for the year ended July 31, 2014 as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

Current Status – Not corrected. The recommendation is repeated.

- (I) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 100% for water system projects, sewer system projects and infrastructure. All of the local option sales tax receipts are recorded in the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are in compliance with the provisions of the referendum.

Current Status – Not corrected. The recommendation is repeated.

- (J) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (K) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...". The City's Annual Financial Report reported receipts, disbursements, transfers and fund balances which do not agree with the City's records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records.

Current Status – Not corrected. The recommendation is repeated.

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Report on the Status of Periodic Examination Findings and Recommendations

- (L) Bank Reconciliations – Although monthly bank reconciliations were performed, the reconciliations were not tied back to the general ledger.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (M) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works and business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City’s budget documents did not list two of the City’s long-term debt issues on the budget’s long-term debt schedule filed with the State of Iowa. The listing of the City’s debt on the long-term debt schedule in the budget documents is required by the State of Iowa.

The City did not amend its budget by May 31 of the current fiscal year as required by Chapter 384.18 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also the City should establish procedures to review the budget preparation and related documents to ensure accuracy.

Current Status – Not corrected. Actual expenses in the year ended June 30, 2015 exceeded the budget in the public works and culture and recreation functions. The budget documents did not list two of the City’s long-term debt issues on the budget’s long-term debt schedule filed with the State of Iowa. The City did not amend its budget by May 31 of the current fiscal year as required by Chapter 384.18 of the Code of Iowa.

- (N) Payroll – The following were identified:

- Timesheets were not maintained for employees.
- The Mayor’s and City Council’s wages were not set by ordinance.

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- Annual salary increases for all City employees were approved based upon a percentage and the actual wages were not documented in the City Council Minutes.
- The City did timely file all IRS Forms 941; however, a copy of one of the quarters could not be located.

Recommendation – Timesheets should be prepared by all personnel. All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. Also the City should maintain copies of all IRS Forms 941. The City Council should also update the ordinance authorizing the wages for the Mayor and City Council.

Current Status – Not corrected. The recommendation is repeated.

- (O) Water and Sewer Sinking Funds – The provisions of the water and sewer revenue notes require sufficient monthly transfers to be made to a separate water revenue note sinking account and sewer revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to these accounts.

Recommendation – The City should ensure sufficient monthly transfers are made to the water and sewer revenue note sinking accounts as required.

Current Status – Corrected. “Debt Service” monthly amounts are recorded in the City’s accounting records as sinking accounts for debt payments.

- (P) Water and Sewer Revenue Notes – The City was unable to provide documentation regarding the requirements of the Water and Sewer Revenue Notes with Berkadia and the USDA. As a result, the City was unable to provide to us the continuing compliance provisions in relation to these notes.

Recommendation – The City should retain documentation relating to any bonds or notes on all future debt issuances.

Current Status – Not corrected. The recommendation is repeated.

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- (Q) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Raymond Meth, Council Member Owner of M&M Mowing	Mowing	\$1,978

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with Raymond Meth do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

Disclosure Only – There were no business transactions during the period tested between the City and Raymond Meth for mowing services.